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Keva’s interim report for 1 January to 30 September 2023: stable period for Keva on the investment front

Keva, which is responsible for the funding of local government and wellbeing services county pensions and for the investment of pension funds, reported a return of 4.1%, or EUR 2.5 billion, for the first nine months of 2023. At the end of September, Keva’s investments had a market value of EUR 64.2 billion, compared to EUR 62.2 billion a year earlier.

By the end of September, contribution income had amounted to EUR 4.6 billion and EUR 5.0 billion had been paid out in local government pensions. Approximately 578,000 local government employees had earnings-related pension insurance at the end of September.

Keva CEO **Jaakko Kiander** says that the outlook throughout the year has been marked by inflation and interest rate hikes by central banks coupled with concerns about economic development.

“Keva’s return on investments has been fairly stable throughout the year despite market turmoil. Amid these short-term events, in June, Keva’s Board of Directors decided to increase the risk level of the investment portfolio over the longer term. The aim is to use investment operations to ensure a steady contribution level across generations,” Kiander says.

Keva’s investment operations generated a market value return of 4.1% for the first nine months of 2023. The return was 7.7% on hedge funds and 5.3% on listed equities, 3.6% on private equity investments (including unlisted equities), 3.2% on fixed income investments and 0.2% on real estate investments (including real estate funds).

Keva’s long-term return on investments continues to be at a good level. The cumulative money-weighted return on investments since funding began in 1988 to the end of September 2023 was 3.6% a year. The average real return, excluding money weighting, over the same period was 4.8%. The real return, excluding money weighting, over the past five years has been 1.4% and the ten-year real return 3.6%.

Listed equities and equity funds accounted for 33.1%, fixed income investments (including the impact of derivatives) for 26.1% and private equity investments for 19.4% of Keva’s total investment assets. Of the smaller asset classes, real estate investments accounted for 7.5% and hedge funds for 7.3%.

Keva CIO **Ari Huotari** says that the year so far has been surprisingly unsurprising.

”There were all the makings of ingredients for significantly much greater market movements. Perhaps things are better like this,” Huotari says.

“We’ll start to action the decision by Keva’s Board to increase the risk level of the investment portfolio advisedly. Depending on the markets, this is likely to take between a year and 18 months,” Huotari estimates.

State, Church, Social Insurance Institution of Finland and Bank of Finland employee pensions

Keva is the largest earnings-related pension provider in Finland and is responsible for instituting pension cover in the public sector. EUR 4.0 billion in State pensions, EUR 190 million in Evangelical Lutheran Church pensions, EUR 92 million in Social Insurance Institution of Finland (Kela) employee pensions and EUR 24 million in Bank of Finland pensions were paid out during the first nine months of 2023. The State, Evangelical Lutheran Church, Kela and the Bank of Finland pay their own pension expenditure and share of operating costs to Keva.

New tools to predict the risk of disability pension

On 2 October 2023, Keva published a new prediction model (in Finnish and Swedish) to examine the disability pension risk of public sector employees. The model can be used to predict the disability pension risk in different employee groups and the factors impacting it. In the first phase, the model will generate information at the entire local government sector level (incl. wellbeing services counties) and in addition employer-specific information. Development work on the model will continue as part of Keva’s Sustainable working life project.

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The figures in this release have not been subject to audit.